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EX PARTE OR LATE FILED

October 10, 1996

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Federal-State Joint Board on Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

In accordance with the Commission's rules regarding ex parte presentations, please be advised that today, Paul Cooper, Bill Blase, and the undersigned, representing Southwestern Bell Telephone Company (SWBT), met with James Casserly, Senior Legal Adviser to Commissioner Susan Ness. The purpose of the meeting was to discuss SWBT's stated position in the above-referenced rule making docket.

Written materials, which were used during the presentation, are attached to this letter for inclusion into the official record in this docket. Pursuant to Section 1.1206(a)(1) of the Commission's rules, 47 C.F.R. § 1.1206(a)(1), two copies of this letter and the supporting materials are provided for your use.

Should you have any questions concerning the foregoing, do not hesitate to contact me.

Sincerely,

Attachment

cc: Mr. Casserly

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MAINTENANCE AND PROTECTION OF QUALITY
UNIVERSAL SERVICE

SWBT

1. Local Exchange Network Facilities (loop, local switch, exchange trunks) are the basis for interconnecting customers and provisioning universally available services.
2. The Actual (Incurred) Costs of local exchange network facilities, which now provide quality universally available services, and which have been approved by both Federal and State regulators, must be used to define appropriate and sufficient support.
3. Universal Service areas should be defined as current exchanges or wire centers.
 - Basis for defining current supported local rate.
4. Actual local exchange study area costs should be distributed to Universal Service areas:
 - a) Based on an analysis of actual costs by wire center or exchange, or
 - b) If actual costs data by wire center is not available, using BCM2 wire center relationships.
5. Level of support should be based on difference between Universal Service area actual costs and:
 - a) Average wire center local exchange revenues (Attachment 1)¹, or
 - b) 1% of statewide average median income (Attachment 2).
6. Support should be jurisdictionalized based on current recovery of local exchange network costs (Attachment 3).
 - Minimizes support funding flows between states and allows states to manage their support requirements.

¹ The average local revenues include vertical service revenues. This revenue further supports reasonably priced residential local rates. This vertical service revenue support has also been placed at substantial risk by the FCC's Interconnection Order. Because SWBT included this revenue as part of the average local exchange revenue benchmark, the vertical service residential support is not included in the support which is calculated. If this implicit vertical service revenue support had instead been excluded from the local service revenue benchmark, SWBT expects that the overall nationwide Universal Service support requirement would increase by \$8B to \$10B.

- Interstate Fund - Interstate loop and switching recovery by LEC.
 - Intrastate Funds - Remainder of support not assigned to the federal fund.
7. Support should be funded (jurisdictionally) on a competitively neutral basis, based on a surcharge on retail revenues (interstate or intrastate) (Attachment 3).
 8. Per line support should be available on a non-discriminatory basis to all eligible (per the Act) and qualified carriers. Qualified carriers receive support:
 - a) Only if the incumbent receives support in the Universal Service area.
 - b) Only if it meets State imposed quality of service criteria.
 - c) Only for the facilities it has placed to serve customers (not for resale or purchase of unbundled elements).
 9. Adoption of TELRIC pricing for interconnection and elimination of TIC and CCL makes Universal Service reform imperative.
 - The TELRIC costing methodology unseparated unblundered loop adopted in the Interconnection Order effectively causes a jurisdictional cost recovery shift to intrastate.
 - The above plan deals with the interstate and intrastate CCL loop cost recovery support (cost recovery shift to State) put at risk by the Interconnection Order.
 - The RIC or TIC represents legitimate costs which are (1) the 80% of tandem costs that were arbitrarily excluded from transport rates by the FCC and; (2) lower volume, higher cost transport rates to largely rural areas and to non-urban independent telephone companies whose costs were not recovered by the arbitrary high volume transport rates established by the FCC. As SWBT demonstrated in its CC Docket 91-213 filing, the RIC supports allowed maintenance of reasonably priced access to toll in these lower volume, largely non-urban areas. Consequently, in order to preserve reasonably priced largely non-urban access to toll, and as a result of the FCC Interconnection Order, if the RIC is not recovered in access reform then SWBT recommends that 100% of the RIC (interstate and intrastate) be assigned to the respective federal and state Universal Service funds.

10. Proxies such as TSLRIC, TELRIC and BCM2 inappropriately define local exchange costs.

- Use of these proxies provide insufficient support to maintain a universally available network (Attachment 4).
- Certain of the proxies (i.e.; TSLRIC purposefully and uneconomically understate costs) (Attachment 5).

Total Industry Universal Service Support Requirement
Actual Local Exchange Costs Less Actual Local Exchange Revenues and Resulting Support By Wire Center
Estimates Based on 1993 Costs and Revenues from Publicly Available Data

| State Name | Annual Amounts | | | | Per Line/Per Month Amounts | | |
|----------------------|----------------|----------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|
| | Actual Lines | Actual Local Revenue | Actual Local Cost | Support Required* | Actual Local Revenue | Actual Local Cost | Support Required* |
| (A) | (B) | (C) | (D) | (E) | (F=C/B/12) | (G=D/B/12) | (H=E/B/12) |
| Alabama | 2,072,664 | 866,853,748 | 1,077,721,181 | 234,374,204 | 34.85 | 43.33 | 9.42 |
| Alaska | 334,059 | 120,062,563 | 230,027,654 | 109,970,461 | 29.95 | 57.38 | 27.43 |
| Arizona | 2,164,479 | 700,932,865 | 975,637,692 | 277,503,157 | 26.99 | 37.56 | 10.68 |
| Arkansas | 1,123,227 | 396,646,333 | 596,858,251 | 225,816,636 | 29.43 | 44.43 | 16.75 |
| California | 18,872,440 | 5,338,363,228 | 8,048,814,054 | 2,720,799,433 | 23.57 | 35.64 | 12.01 |
| Colorado | 2,191,528 | 795,399,525 | 1,080,344,033 | 292,505,111 | 30.25 | 41.08 | 11.12 |
| Connecticut | 1,856,765 | 645,426,488 | 1,000,889,157 | 355,491,945 | 28.97 | 44.92 | 15.95 |
| Delaware | 446,623 | 128,433,400 | 165,137,670 | 38,258,676 | 23.96 | 30.81 | 7.14 |
| District of Columbia | 838,869 | 314,317,223 | 348,685,582 | 35,304,526 | 31.22 | 34.64 | 3.51 |
| Florida | 8,580,752 | 2,840,348,799 | 4,510,269,707 | 1,870,891,976 | 27.58 | 43.80 | 16.23 |
| Georgia | 3,791,933 | 1,514,328,274 | 2,125,785,837 | 629,659,318 | 33.28 | 46.72 | 13.84 |
| Hawaii | 664,306 | 238,660,810 | 362,775,174 | 124,464,308 | 29.94 | 45.51 | 15.61 |
| Idaho | 549,518 | 157,391,126 | 260,031,714 | 102,640,588 | 23.87 | 39.43 | 15.57 |
| Illinois | 6,979,818 | 2,459,994,751 | 2,609,596,493 | 288,165,484 | 29.37 | 31.16 | 3.44 |
| Indiana | 2,972,600 | 942,926,287 | 1,276,168,550 | 337,885,002 | 26.43 | 35.78 | 9.47 |
| Iowa | 1,419,123 | 405,917,369 | 547,288,005 | 146,449,120 | 23.84 | 32.14 | 8.60 |
| Kansas | 1,271,413 | 395,821,472 | 606,771,319 | 222,835,461 | 25.94 | 39.77 | 14.61 |
| Kentucky | 1,754,734 | 657,927,897 | 901,009,450 | 260,118,189 | 31.25 | 42.79 | 12.35 |
| Louisiana | 2,101,558 | 906,309,658 | 1,119,314,386 | 243,455,976 | 36.02 | 44.38 | 9.65 |
| Maine | 699,372 | 187,677,042 | 353,698,726 | 167,750,201 | 22.36 | 42.14 | 19.99 |
| Maryland | 3,005,368 | 1,122,669,395 | 1,321,719,051 | 227,649,142 | 31.13 | 36.65 | 6.31 |
| Massachusetts | 3,807,972 | 1,395,975,145 | 1,632,197,849 | 287,682,216 | 30.55 | 35.72 | 6.30 |
| Michigan | 5,321,861 | 1,518,815,723 | 2,250,978,622 | 738,757,952 | 23.78 | 35.25 | 11.57 |
| Minnesota | 2,526,505 | 826,335,933 | 1,066,749,807 | 262,010,195 | 27.26 | 35.15 | 8.64 |
| Mississippi | 1,136,798 | 479,166,220 | 673,990,197 | 200,653,582 | 35.13 | 49.41 | 14.71 |
| Missouri | 2,692,604 | 953,075,649 | 1,357,802,676 | 499,705,354 | 29.50 | 42.02 | 15.47 |
| Montana | 436,752 | 133,115,731 | 219,252,984 | 86,137,254 | 25.40 | 41.83 | 16.44 |
| Nebraska | 889,112 | 311,666,332 | 447,272,834 | 149,610,069 | 29.21 | 41.92 | 14.02 |
| Nevada | 862,067 | 233,451,712 | 317,733,173 | 89,618,539 | 22.57 | 30.71 | 8.66 |
| New Hampshire | 665,406 | 207,232,487 | 326,514,557 | 119,282,070 | 25.95 | 40.89 | 14.94 |
| New Jersey | 5,279,728 | 1,376,113,096 | 2,039,699,224 | 663,588,127 | 21.72 | 32.19 | 10.47 |
| New Mexico | 792,240 | 280,456,864 | 416,798,652 | 141,124,455 | 29.50 | 43.84 | 14.84 |
| New York | 10,483,945 | 5,270,228,705 | 5,814,024,150 | 1,008,489,629 | 41.89 | 46.21 | 8.02 |
| North Carolina | 3,765,655 | 1,253,682,979 | 1,844,102,030 | 592,611,287 | 27.74 | 40.81 | 13.11 |
| North Dakota | 371,697 | 106,392,816 | 168,733,479 | 63,576,071 | 23.85 | 38.05 | 14.25 |
| Ohio | 5,797,159 | 2,055,741,543 | 2,816,723,352 | 596,048,856 | 29.55 | 37.62 | 8.57 |
| Oklahoma | 1,618,224 | 553,977,100 | 807,875,733 | 308,837,035 | 28.53 | 41.60 | 15.90 |
| Oregon | 1,654,772 | 523,144,957 | 760,150,039 | 240,710,698 | 26.35 | 38.28 | 12.12 |
| Pennsylvania | 6,733,990 | 1,983,970,486 | 2,773,817,227 | 806,171,010 | 24.55 | 34.32 | 9.96 |
| Rhode Island | 565,730 | 192,571,380 | 223,929,757 | 35,670,200 | 28.37 | 32.99 | 5.25 |
| South Carolina | 1,785,755 | 703,736,101 | 986,410,088 | 287,564,532 | 32.84 | 46.03 | 13.42 |
| South Dakota | 363,087 | 106,132,673 | 166,999,481 | 63,894,620 | 24.36 | 38.33 | 14.66 |
| Tennessee | 2,763,203 | 975,274,943 | 1,365,010,998 | 401,568,014 | 29.41 | 41.17 | 12.11 |
| Texas | 9,359,007 | 3,177,416,439 | 4,830,532,335 | 1,779,494,486 | 28.29 | 43.01 | 15.84 |
| Utah | 883,407 | 249,635,740 | 384,065,803 | 114,516,899 | 23.55 | 34.34 | 10.80 |
| Vermont | 305,499 | 109,832,229 | 172,895,663 | 65,999,566 | 29.96 | 47.16 | 18.00 |
| Virginia | 3,673,652 | 1,292,128,978 | 1,893,632,013 | 428,318,816 | 29.31 | 38.42 | 9.72 |
| Washington | 2,958,810 | 911,951,944 | 1,386,574,046 | 479,328,369 | 25.68 | 39.05 | 13.50 |
| West Virginia | 849,875 | 389,004,506 | 502,396,127 | 151,531,578 | 36.18 | 49.26 | 14.86 |
| Wisconsin | 2,800,330 | 815,823,429 | 1,138,458,687 | 330,957,566 | 24.28 | 33.88 | 9.85 |
| Wyoming | 253,725 | 76,140,411 | 140,201,968 | 64,061,557 | 25.01 | 46.05 | 21.04 |
| Total | 145,089,715 | 49,580,600,508 | 68,025,864,237 | 19,769,507,515 | 28.48 | 39.07 | 11.35 |

* Support is developed on a wire center specific basis, and may not reflect differences between study area costs and revenues.

Total Industry Universal Service Support Requirement
Actual Cost and Revenues Assuming Local Rates Equal 1% State Median Income By Wire Center
Estimates Based on 1993 Costs and Assumed Revenues from Publicly Available Data

| State Name | Annual Amounts | | | | Per Line/Per Month Amounts | | |
|----------------------|----------------|-------------------------|-------------------|-------------------|----------------------------|-------------------|-------------------|
| | Actual Lines | Estimated Local Revenue | Actual Local Cost | Support Required* | Estimated Local Revenue | Actual Local Cost | Support Required* |
| (A) | (B) | (C) | (D) | (E) | (F=C/B/12) | (G=D/B/12) | (H=E/B/12) |
| Alabama | 2,072,664 | 563,598,795 | 1,077,721,181 | 514,122,386 | 22.66 | 43.33 | 20.67 |
| Alaska | 334,059 | 151,569,130 | 230,027,654 | 80,755,985 | 37.81 | 57.38 | 20.15 |
| Arizona | 2,164,479 | 677,395,348 | 975,637,692 | 299,580,135 | 26.08 | 37.56 | 11.53 |
| Arkansas | 1,123,227 | 287,096,752 | 596,858,251 | 311,896,124 | 21.30 | 44.43 | 23.14 |
| California | 18,872,440 | 6,867,255,803 | 8,048,814,054 | 1,576,306,609 | 29.44 | 35.54 | 6.96 |
| Colorado | 2,191,528 | 829,186,534 | 1,080,344,033 | 262,231,663 | 31.53 | 41.08 | 9.97 |
| Connecticut | 1,858,765 | 763,130,415 | 1,000,889,157 | 247,707,988 | 34.25 | 44.92 | 11.12 |
| Delaware | 446,623 | 160,194,738 | 165,137,670 | 17,488,402 | 29.89 | 30.81 | 3.26 |
| District of Columbia | 838,869 | 252,667,345 | 348,685,582 | 96,018,237 | 25.10 | 34.64 | 9.54 |
| Florida | 8,580,752 | 2,513,473,876 | 4,510,266,707 | 1,996,792,831 | 24.41 | 43.80 | 19.39 |
| Georgia | 3,791,933 | 1,193,093,799 | 2,125,785,837 | 932,802,208 | 28.22 | 46.72 | 20.50 |
| Hawaii | 664,306 | 280,682,571 | 362,775,174 | 95,736,113 | 35.21 | 45.51 | 12.01 |
| Idaho | 549,518 | 173,164,112 | 260,031,714 | 89,647,513 | 26.26 | 39.43 | 13.59 |
| Illinois | 6,979,816 | 2,448,240,962 | 2,609,596,493 | 300,128,126 | 29.23 | 31.16 | 3.58 |
| Indiana | 2,972,600 | 828,285,264 | 1,276,168,550 | 448,233,092 | 23.22 | 35.78 | 12.57 |
| Iowa | 1,419,123 | 469,502,653 | 547,288,005 | 103,352,180 | 27.57 | 32.14 | 6.07 |
| Kansas | 1,271,413 | 329,694,283 | 606,771,319 | 277,959,980 | 21.61 | 39.77 | 18.22 |
| Kentucky | 1,754,734 | 466,618,865 | 901,009,450 | 435,179,451 | 22.16 | 42.79 | 20.67 |
| Louisiana | 2,101,558 | 539,680,094 | 1,119,314,366 | 579,634,292 | 21.40 | 44.38 | 22.96 |
| Maine | 699,372 | 211,993,641 | 353,696,726 | 144,537,178 | 25.26 | 42.14 | 17.22 |
| Maryland | 3,005,368 | 1,178,224,471 | 1,321,719,051 | 189,907,748 | 32.67 | 36.65 | 5.27 |
| Massachusetts | 3,807,972 | 1,542,228,830 | 1,632,197,849 | 199,996,014 | 33.75 | 35.72 | 4.38 |
| Michigan | 5,321,861 | 1,877,552,561 | 2,250,978,622 | 411,931,166 | 29.40 | 35.25 | 6.45 |
| Minnesota | 2,526,505 | 850,118,402 | 1,065,749,807 | 238,128,765 | 28.04 | 35.15 | 7.85 |
| Mississippi | 1,136,798 | 288,792,164 | 673,990,197 | 385,198,033 | 21.17 | 49.41 | 28.24 |
| Missouri | 2,692,604 | 717,438,974 | 1,357,802,676 | 643,306,837 | 22.20 | 42.02 | 19.91 |
| Montana | 436,752 | 120,700,783 | 219,252,984 | 98,559,398 | 23.03 | 41.83 | 16.81 |
| Nebraska | 889,112 | 282,737,616 | 447,272,834 | 175,282,192 | 26.50 | 41.92 | 16.43 |
| Nevada | 862,067 | 309,206,192 | 317,733,173 | 48,304,167 | 29.89 | 30.71 | 4.67 |
| New Hampshire | 665,406 | 234,515,691 | 326,514,557 | 93,393,727 | 29.37 | 40.89 | 11.70 |
| New Jersey | 5,279,728 | 2,232,057,809 | 2,039,699,224 | 78,058,814 | 35.23 | 32.19 | 1.23 |
| New Mexico | 792,240 | 213,144,250 | 416,798,652 | 203,654,402 | 22.42 | 43.84 | 21.42 |
| New York | 10,483,945 | 3,343,959,097 | 5,814,024,150 | 2,470,749,692 | 26.58 | 46.21 | 19.64 |
| North Carolina | 3,765,655 | 1,134,215,286 | 1,844,102,030 | 713,384,912 | 25.10 | 40.81 | 15.79 |
| North Dakota | 371,697 | 105,130,779 | 169,733,479 | 64,845,791 | 23.57 | 38.05 | 14.54 |
| Ohio | 5,797,159 | 1,846,974,857 | 2,616,723,352 | 778,942,423 | 26.55 | 37.62 | 11.20 |
| Oklahoma | 1,618,224 | 417,692,830 | 807,875,733 | 393,020,342 | 21.51 | 41.60 | 20.24 |
| Oregon | 1,654,772 | 520,458,889 | 760,150,039 | 244,628,491 | 26.21 | 38.28 | 12.32 |
| Pennsylvania | 6,733,990 | 2,159,186,554 | 2,773,617,227 | 650,202,244 | 26.72 | 34.32 | 8.05 |
| Rhode Island | 566,730 | 180,648,904 | 223,929,757 | 44,525,670 | 26.61 | 32.99 | 6.56 |
| South Carolina | 1,785,755 | 532,940,722 | 986,410,088 | 453,769,330 | 24.87 | 46.03 | 21.18 |
| South Dakota | 363,087 | 108,359,684 | 166,999,481 | 60,937,369 | 24.87 | 38.33 | 13.99 |
| Tennessee | 2,763,203 | 791,491,726 | 1,365,010,998 | 573,519,271 | 23.87 | 41.17 | 17.30 |
| Texas | 9,359,007 | 2,499,852,822 | 4,830,532,335 | 2,338,596,122 | 22.26 | 43.01 | 20.82 |
| Utah | 863,407 | 315,482,308 | 364,065,803 | 60,066,728 | 29.76 | 34.34 | 5.67 |
| Vermont | 305,499 | 109,393,082 | 172,895,663 | 66,165,775 | 29.84 | 47.16 | 18.06 |
| Virginia | 3,673,652 | 1,382,909,559 | 1,693,632,013 | 353,185,624 | 31.37 | 38.42 | 8.01 |
| Washington | 2,958,810 | 992,029,817 | 1,386,574,046 | 406,740,157 | 27.94 | 39.05 | 11.46 |
| West Virginia | 849,875 | 200,298,540 | 502,396,127 | 302,097,587 | 19.64 | 49.26 | 29.62 |
| Wisconsin | 2,800,330 | 990,980,780 | 1,138,458,687 | 180,442,762 | 29.49 | 33.86 | 5.37 |
| Wyoming | 253,725 | 84,094,614 | 140,201,968 | 56,107,354 | 27.62 | 46.05 | 18.43 |
| Total | 145,089,715 | 47,369,343,375 | 68,025,864,237 | 21,787,759,402 | 27.21 | 39.07 | 12.51 |

* Support is developed on a wire center specific basis, and may not reflect differences between study area costs and revenues.

Estimated Jurisdictional Support

| State | Total Support | Interstate Support | State Support | Intrastate Retail Revenues* | Intrastate Surcharge |
|--|----------------|--------------------|----------------|-----------------------------|----------------------|
| Alabama | 234,374,204 | 121,930,701 | 112,443,503 | 1,157,673,574 | 0.0971 |
| Alaska | 109,970,461 | 91,700,016 | 18,270,445 | 207,735,672 | 0.0880 |
| Arizona | 277,503,157 | 78,740,488 | 198,762,669 | 954,377,921 | 0.2083 |
| Arkansas | 225,816,636 | 114,743,378 | 111,073,258 | 593,718,657 | 0.1871 |
| California | 2,720,799,433 | 404,281,253 | 2,316,518,180 | 9,998,253,180 | 0.2317 |
| Colorado | 292,505,111 | 53,626,739 | 238,878,372 | 1,031,641,840 | 0.2316 |
| Connecticut | 355,491,945 | 39,916,088 | 315,575,857 | 919,061,952 | 0.3434 |
| Delaware | 38,258,676 | 6,915,000 | 31,343,676 | 124,158,178 | 0.2524 |
| District of Columbia | 35,304,526 | 9,514,000 | 25,790,526 | 356,598,444 | 0.0723 |
| Florida | 1,670,891,976 | 340,819,035 | 1,330,072,942 | 4,308,389,012 | 0.3087 |
| Georgia | 629,659,318 | 195,630,430 | 434,028,888 | 1,948,221,307 | 0.2228 |
| Hawaii | 124,464,308 | 18,700,000 | 105,764,308 | 270,937,143 | 0.3904 |
| Idaho | 102,640,588 | 55,982,955 | 46,657,633 | 283,360,866 | 0.1647 |
| Illinois | 288,165,484 | 120,287,568 | 167,877,916 | 2,775,034,067 | 0.0605 |
| Indiana | 337,885,002 | 69,239,629 | 268,645,373 | 1,561,889,944 | 0.1720 |
| Iowa | 146,449,120 | 52,337,414 | 94,111,706 | 852,298,620 | 0.1104 |
| Kansas | 222,835,461 | 71,239,926 | 151,595,535 | 802,577,867 | 0.1889 |
| Kentucky | 260,118,189 | 84,837,312 | 175,280,878 | 883,055,775 | 0.1985 |
| Louisiana | 243,455,976 | 131,213,892 | 112,242,084 | 1,151,905,159 | 0.0974 |
| Maine | 167,750,201 | 36,951,904 | 130,798,296 | 355,464,485 | 0.3680 |
| Maryland | 227,649,142 | 50,452,438 | 177,196,704 | 1,314,795,582 | 0.1348 |
| Massachusetts | 287,682,216 | 75,521,455 | 212,160,762 | 1,745,049,142 | 0.1216 |
| Michigan | 738,757,952 | 100,180,174 | 638,577,778 | 2,685,933,266 | 0.2377 |
| Minnesota | 262,010,195 | 69,219,913 | 192,790,283 | 1,315,914,385 | 0.1465 |
| Mississippi | 200,653,582 | 97,337,604 | 103,315,978 | 631,693,253 | 0.1636 |
| Missouri | 499,705,354 | 201,061,742 | 298,643,611 | 1,614,285,920 | 0.1850 |
| Montana | 86,137,254 | 39,377,589 | 46,759,664 | 264,204,043 | 0.1770 |
| Nebraska | 149,610,069 | 28,062,353 | 121,547,715 | 504,203,117 | 0.2411 |
| Nevada | 89,618,539 | 22,457,135 | 67,161,403 | 254,938,777 | 0.2634 |
| New Hampshire | 119,282,070 | 35,359,094 | 83,922,976 | 306,820,919 | 0.2735 |
| New Jersey | 663,586,127 | 109,944,952 | 553,641,176 | 2,135,572,762 | 0.2592 |
| New Mexico | 141,124,455 | 67,032,659 | 74,091,796 | 414,703,652 | 0.1787 |
| New York | 1,008,489,629 | 280,942,589 | 727,547,040 | 6,321,314,193 | 0.1151 |
| North Carolina | 592,611,287 | 157,175,509 | 435,435,778 | 2,054,839,166 | 0.2119 |
| North Dakota | 63,576,071 | 20,926,440 | 42,649,631 | 200,158,218 | 0.2131 |
| Ohio | 596,048,856 | 96,663,136 | 499,385,720 | 2,947,235,551 | 0.1694 |
| Oklahoma | 308,837,035 | 101,329,941 | 207,507,095 | 784,949,960 | 0.2644 |
| Oregon | 240,710,698 | 68,374,343 | 172,336,355 | 901,412,223 | 0.1912 |
| Pennsylvania | 806,171,010 | 132,786,168 | 673,384,842 | 2,978,918,327 | 0.2261 |
| Rhode Island | 35,670,200 | 11,214,000 | 24,456,200 | 216,536,713 | 0.1129 |
| South Carolina | 287,564,532 | 122,629,882 | 164,934,651 | 1,010,337,329 | 0.1632 |
| South Dakota | 63,894,620 | 18,745,429 | 45,149,192 | 184,759,896 | 0.2444 |
| Tennessee | 401,568,014 | 99,963,956 | 301,604,058 | 1,251,733,510 | 0.2409 |
| Texas | 1,779,494,486 | 413,047,555 | 1,366,446,931 | 5,604,719,796 | 0.2438 |
| Utah | 114,516,899 | 22,973,186 | 91,543,713 | 361,458,607 | 0.2533 |
| Vermont | 65,999,566 | 28,225,517 | 37,774,049 | 189,628,232 | 0.1992 |
| Virginia | 428,318,816 | 83,369,704 | 344,949,112 | 1,797,361,608 | 0.1919 |
| Washington | 479,328,369 | 102,150,580 | 377,177,788 | 1,700,617,065 | 0.2218 |
| West Virginia | 151,531,578 | 94,202,700 | 57,328,878 | 483,835,115 | 0.1185 |
| Wisconsin | 330,957,566 | 78,173,311 | 252,784,255 | 1,428,353,431 | 0.1770 |
| Wyoming | 64,061,557 | 15,123,064 | 48,938,493 | 129,963,433 | 0.3766 |
| Total | 19,769,507,515 | 4,942,631,846 | 14,826,875,669 | 74,272,600,854 | 0.1996 |
| Interstate Revenues | | 57,357,848.089 | | | |
| Interstate Surcharge Per Dollar of Revenue | | 0.0862 | | | |

* Wireless revenues not available and not included.

**PROXIES ARE INAPPROPRIATE FOR USE IN DETERMINING TOTAL LOCAL EXCHANGE COSTS
AND PRODUCE INSUFFICIENT SUPPORT TO MAINTAIN UNIVERSAL SERVICE**

LOCAL EXCHANGE COSTS

| State | ACTUAL Total (a) | Total (b) | BCM 2 Difference (b-a) | % DIFF (d=c/a) | Total (e) | FCC TELRIC * Difference (f-e) | % DIFF (g/f/a) | Total (h) | Hatfield TSLRIC * Difference (i-h) | % DIFF (j=i/a) |
|----------------------|------------------------|----------------|------------------------------|-------------------|----------------|-------------------------------------|-------------------|----------------|--|-------------------|
| Alabama | 1,077,721,181 | 1,037,946,245 | (39,774,936) | -3.69% | 675,273,931 | (402,447,250) | -37.34% | 556,634,644 | (521,066,537) | -48.35% |
| Alaska ** | 230,027,554 | 173,790,374 | (56,237,280) | -24.45% | — | — | — | — | — | — |
| Arizona | 975,637,592 | 869,415,677 | (106,222,015) | -10.89% | 590,902,767 | (384,734,825) | -39.43% | 534,539,724 | (441,097,958) | -45.21% |
| Arkansas | 598,858,251 | 696,035,538 | 97,177,287 | 16.23% | 418,918,641 | (179,939,610) | -30.05% | 299,227,601 | (299,630,651) | -50.03% |
| California | 8,048,814,054 | 5,941,332,678 | (2,107,481,376) | -26.18% | 4,755,854,880 | (3,292,959,174) | -40.91% | 3,415,156,742 | (4,633,657,311) | -57.57% |
| Colorado | 1,080,344,033 | 968,292,082 | (212,051,950) | -19.63% | 654,039,616 | (426,304,416) | -39.46% | 611,436,312 | (468,907,721) | -43.40% |
| Connecticut | 1,000,669,157 | 753,143,487 | (247,745,670) | -24.75% | 515,363,693 | (485,525,463) | -48.51% | 400,169,963 | (600,719,164) | -60.02% |
| Delaware | 165,137,670 | 166,553,741 | 1,416,071 | 0.86% | 124,018,273 | (41,119,396) | -24.90% | 32,238,582 | (72,901,088) | -44.15% |
| District of Columbia | 348,685,582 | 188,823,354 | (159,862,228) | -45.85% | 208,473,728 | (140,209,858) | -40.21% | 122,977,515 | (215,708,067) | -61.86% |
| Florida | 4,510,266,707 | 3,189,750,015 | (1,340,516,692) | -29.72% | 2,428,009,586 | (2,082,237,121) | -46.17% | 1,681,920,047 | (2,848,348,680) | -63.15% |
| Georgia | 2,125,785,837 | 1,637,788,152 | (488,017,585) | -22.96% | 1,182,628,064 | (943,157,773) | -44.37% | 855,460,085 | (1,270,325,752) | -59.76% |
| Hawaii ** | 362,775,174 | 233,685,291 | (129,089,883) | -35.58% | 200,646,984 | (162,128,190) | -44.69% | — | — | — |
| Idaho | 280,031,714 | 284,679,176 | 24,647,462 | 9.48% | 158,222,133 | (61,808,581) | -23.77% | 148,820,586 | (110,211,127) | -42.58% |
| Illinois | 2,609,596,493 | 2,534,907,043 | (74,689,450) | -2.86% | 1,928,104,924 | (681,491,568) | -28.11% | 1,321,898,336 | (1,287,898,156) | -49.35% |
| Indiana | 1,278,168,550 | 1,350,433,757 | 72,265,207 | 5.62% | 827,215,128 | (448,953,422) | -35.18% | 517,825,184 | (658,343,366) | -51.52% |
| Iowa | 547,288,005 | 741,786,836 | 194,498,831 | 35.54% | 440,041,690 | (107,246,345) | -19.60% | 338,205,393 | (208,082,612) | -38.20% |
| Kansas | 806,771,319 | 583,065,133 | (223,706,186) | -27.73% | 453,894,406 | (152,876,913) | -25.20% | 320,701,190 | (286,070,128) | -47.15% |
| Kentucky | 901,009,450 | 983,283,835 | 82,274,385 | 9.13% | 580,111,093 | (340,898,357) | -37.84% | 465,355,457 | (435,683,993) | -48.35% |
| Louisiana | 1,119,314,386 | 998,118,981 | (121,195,405) | -10.83% | 677,878,548 | (441,435,838) | -39.44% | 499,077,994 | (680,236,392) | -55.41% |
| Maine | 353,698,729 | 384,014,838 | 30,316,112 | 8.57% | 239,940,546 | (113,758,180) | -22.16% | 190,089,310 | (163,809,416) | -46.28% |
| Maryland | 1,321,719,051 | 1,017,207,173 | (304,511,879) | -23.04% | 838,858,316 | (482,860,725) | -36.53% | 900,472,528 | (721,248,525) | -54.57% |
| Massachusetts | 1,632,197,849 | 1,202,035,686 | (430,162,164) | -26.35% | 901,575,550 | (730,622,299) | -44.76% | 753,521,562 | (878,878,267) | -53.83% |
| Michigan | 2,250,978,622 | 2,292,876,029 | 41,897,407 | 1.86% | 1,607,414,898 | (643,563,725) | -28.59% | 1,108,680,084 | (1,142,328,538) | -50.75% |
| Minnesota | 1,086,749,807 | 1,119,456,238 | 32,706,431 | 3.01% | 749,159,283 | (316,590,544) | -29.71% | 568,463,625 | (497,286,182) | -46.86% |
| Mississippi | 673,990,197 | 682,178,236 | 8,188,039 | 1.21% | 434,757,027 | (239,233,170) | -35.50% | 389,004,631 | (304,986,568) | -45.23% |
| Missouri | 1,357,802,578 | 1,284,484,028 | (73,318,550) | -5.37% | 911,823,419 | (446,979,238) | -32.85% | 505,512,788 | (752,289,889) | -55.40% |
| Montana | 219,252,984 | 237,210,689 | 17,957,705 | 8.19% | 183,655,122 | (35,597,863) | -16.14% | 139,201,597 | (80,061,387) | -36.51% |
| Nebraska | 447,272,634 | 480,800,835 | 33,528,201 | 7.49% | 298,208,165 | (149,064,669) | -33.23% | 298,275,096 | (147,967,735) | -33.09% |
| Nevada | 317,733,173 | 327,042,056 | 9,308,883 | 2.93% | 298,447,595 | (19,285,577) | -6.47% | 272,482,137 | (48,251,035) | -14.24% |
| New Hampshire | 328,514,557 | 319,847,713 | (8,666,844) | -2.64% | 208,808,185 | (119,706,372) | -38.68% | 172,233,689 | (154,280,868) | -47.25% |
| New Jersey | 2,039,699,224 | 1,631,629,618 | (408,069,606) | -20.01% | 1,417,290,184 | (622,409,039) | -30.51% | 967,457,359 | (1,072,241,865) | -52.57% |
| New Mexico | 416,798,652 | 393,939,706 | (22,858,946) | -5.48% | 271,518,493 | (145,280,159) | -34.86% | 222,265,923 | (194,432,729) | -46.86% |
| New York | 5,814,024,150 | 3,286,233,149 | (2,527,791,001) | -43.48% | 2,723,728,911 | (3,090,296,239) | -53.15% | 2,040,596,055 | (3,773,429,096) | -64.90% |
| North Carolina | 1,844,102,030 | 1,749,187,470 | (94,914,560) | -5.15% | 1,202,448,955 | (641,653,075) | -34.79% | 827,841,365 | (1,018,290,435) | -55.11% |
| North Dakota | 189,733,479 | 177,195,333 | (12,538,146) | -6.61% | 157,272,435 | (12,461,045) | -7.24% | 38,138,793 | (61,596,687) | -61.07% |
| Ohio | 2,916,723,352 | 2,308,899,309 | (607,824,043) | -20.84% | 1,782,974,222 | (833,749,130) | -31.86% | 1,173,578,868 | (1,443,148,484) | -55.15% |
| Oklahoma | 607,675,733 | 752,340,222 | 144,664,489 | 23.81% | 534,596,545 | (273,279,189) | -33.83% | 414,006,478 | (393,869,256) | -48.75% |
| Oregon | 780,150,039 | 708,683,486 | (71,466,553) | -9.16% | 503,183,070 | (276,966,970) | -35.30% | 383,443,768 | (378,708,272) | -49.58% |
| Pennsylvania | 2,773,617,227 | 2,585,827,408 | (187,789,819) | -6.77% | 1,793,934,936 | (979,682,291) | -35.32% | 1,340,602,729 | (1,433,014,468) | -51.67% |
| Rhode Island | 223,929,757 | 218,174,290 | (5,755,468) | -2.57% | 145,143,689 | (78,786,069) | -35.18% | 112,525,528 | (111,304,229) | -49.70% |
| South Carolina | 986,410,088 | 879,354,388 | (107,055,700) | -10.85% | 577,941,748 | (408,468,340) | -41.41% | 437,581,405 | (548,828,683) | -55.64% |
| South Dakota | 186,999,481 | 228,196,477 | 41,196,996 | 22.03% | 153,468,660 | (13,500,821) | -8.08% | 91,192,931 | (73,808,551) | -45.39% |
| Tennessee | 1,385,010,998 | 1,271,017,385 | (113,993,613) | -8.23% | 905,556,728 | (489,454,272) | -33.66% | 570,463,467 | (894,547,541) | -50.86% |
| Texas | 4,830,532,335 | 3,537,180,326 | (1,293,352,010) | -26.77% | 2,851,502,253 | (1,979,030,083) | -40.97% | 1,882,283,488 | (2,948,248,848) | -61.03% |
| Utah | 364,065,303 | 351,784,802 | (12,280,501) | -3.38% | 285,234,118 | (78,831,685) | -27.15% | 228,328,873 | (137,738,930) | -37.83% |
| Vermont | 172,895,663 | 183,401,650 | 10,505,987 | 6.08% | 110,089,620 | (62,806,043) | -36.33% | 89,743,286 | (83,152,277) | -48.09% |
| Virginia | 1,693,632,013 | 1,541,321,587 | (152,310,426) | -9.00% | 1,099,334,291 | (634,297,723) | -37.45% | 752,070,037 | (941,561,978) | -56.56% |
| Washington | 1,386,574,048 | 1,155,683,668 | (230,890,378) | -16.65% | 826,218,104 | (560,355,942) | -40.41% | 613,893,899 | (772,680,147) | -55.73% |
| West Virginia | 502,396,127 | 534,866,478 | 32,470,352 | 6.46% | 297,286,275 | (205,109,852) | -40.83% | 262,509,390 | (239,888,737) | -47.73% |
| Wisconsin | 1,138,458,687 | 1,247,277,077 | 108,818,390 | 9.56% | 868,326,325 | (270,132,361) | -23.73% | 572,246,132 | (611,212,555) | -53.69% |
| Wyoming | 140,201,968 | 121,619,851 | (18,582,117) | -13.25% | 108,594,947 | (31,607,021) | -23.97% | 92,132,622 | (48,069,348) | -34.29% |
| Total | 68,025,864,237 | 57,717,567,512 | (10,308,296,725) | -15.15% | 42,064,120,646 | (25,731,715,937) | -37.83% | 30,567,448,182 | (38,865,613,226) | -54.19% |

* Estimated State Access Lines times TELRIC or Hatfield average cost per line.

** No TELRIC and/or Hatfield proxy numbers are available for these states.

- Local Exchange Network facilities cannot be built based on the cost results of the hypothetical FCC TELRIC, Hatfield, and BCM 2 models in many regions of the country.
- If these confiscatory models are used as the cost basis for Universal Service, legitimate costs will be excluded, Universal Service funds will not have sufficient support, and quality, universally- available service at just and reasonable rates will not be possible.

**EXAMPLES OF HATFIELD MODEL
VERSION 2.2, RELEASE 2
UNDERSTATEMENT OF COSTS**

1. STRUCTURE FACTORS ASSIGN ONLY 33% TO TELEPHONE

The Hatfield model inappropriately includes only one-third of costs associated with poles, conduit and trenching for buried cable. This calculation takes place in the Expense Module on the "Distribution" and "Feeder" worksheets. The "Structure fraction assigned to telephone" factors are found in cells F59 - H60 on the "Inputs" worksheet. They are shown separately for distribution and feeder.

Changing these factors from .33 to 1 increases the average loop cost per month as shown on below:

| | <u>Per Loop</u> | | <u>Total</u> <u>Understated</u> <u>Costs</u> |
|----------|-----------------|-----------|--|
| | <u>From</u> | <u>To</u> | |
| Arkansas | \$16.12 | \$19.98 | \$36M |
| Kansas | not yet run | - | - |
| Missouri | \$13.36 | \$17.30 | \$97M |
| Oklahoma | \$15.70 | \$20.10 | \$70M |
| Texas | \$11.87 | \$15.86 | \$349M |

2. HATFIELD DEVELOPS FACTORS ON TOTAL INVESTMENT AND RELATED EXPENSES, BUT UNDERSTATES EXPENSES BY INAPPROPRIATELY APPLYING THE FACTORS TO ONLY A PORTION OF THE HATFIELD CALCULATED INVESTMENT.

Hatfield computes a maintenance factor from ARMIS data for cable and wire based on total maintenance expense and total investment by account; i.e., buried cable, underground cable, etc. Hatfield also develops factors in the "Inputs" worksheet of the Expense Module to determine the "Installation Factor", which is the percent of material cost to installed cost. When the "Network Expenses" are calculated on the individual worksheets ("Distribution", "Feeder") the total investment is first multiplied by the "Installation Factor" to develop material only costs. To develop maintenance expense, the material only costs are multiplied by the maintenance factor. This substantially understates the maintenance expenses. The proper expense development would be to apply the maintenance factors to the total investment, not just the material portion of that investment. In the case of buried cable, the expense is further understated by the .33 structure factor.

3. The model excludes investments related to motor vehicles and work equipment, and investments associated with plant under construction, and materials and supplies.
4. The model only identifies land and building costs for switching-related facilities. The model excludes necessary land and building costs (for central office circuit facilities, etc.).
5. The Hatfield model relies on the Benchmark Cost Model (BCM) for various elements including fill or capacity utilization. The fill factors are not realistic and can and have been utilized to understate investment in the Hatfield model. Released 2.2 of the Hatfield model used a lower fill factor than the BCM, resulting in higher investment. Finally, the model has not been updated with the latest BCM2 fill which would substantially raise investments.
6. The model uses a very conservative rate of return — well below the authorized federal return.
7. The model relies on incorrect input assumptions. For instance, the model assigns entire CBG costs to one LEC, when in fact, CBGs are often served by different LECs, and costs should be split among LECs.
8. The model excludes marketing expenses even though these expenses are required by the Federal Act to advertise the availability of Universal Services.
9. The model incorrectly assumes that support costs (e.g., computers, furniture, office equipment, etc.) will decline simply because Hatfield estimates facility investments which are lower than actual investments. The model lowers support cost based on a percentage equal to the Hatfield estimated investment divided actual investment.

COMPETITIVE BIDDING IS INAPPROPRIATE AND UNNECESSARY

ENCOURAGES GAME PLAYING TO THE DETRIMENT OF UNIVERSAL SERVICE.

- New entrant could select to serve a few cost customers in a high cost area with facilities and provide service to others with resale.
- New entrant could bid down support based on their lower facility costs.
- Support for incumbents who serve the higher cost customers would also be inappropriately reduced.

DOES NOT COMPLY WITH THE INTENT OF FEDERAL LEGISLATION AND IS HARMFUL TO THE STATE.

- Discourages competition.
- Disincentivizes economic development.
- Discourages comparable urban and rural services and rates.
- Discourages bringing advanced services to rural areas.

WOULD CREATE INSTABILITY IN RURAL AND HIGH COST AREAS.

- Continual changes in carrier of last resort obligations.
 - Who is customer to call?
- Insufficient support to maintain current obligations.

CREATES SUBSTANTIAL AND ADDITIONAL ADMINISTRATIVE BURDENS FOR COMPANIES AND REGULATORS.